

Message Text

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21

ACTION TRSE-00

INFO OCT-01 AF-06 ARA-06 EA-07 EUR-12 NEA-10 IO-10 ISO-00

FEA-01 ERDA-05 AID-05 CEA-01 CIAE-00 CIEP-01 COME-00

DODE-00 EB-07 FPC-01 H-02 INR-07 INT-05 L-03 NSAE-00

NSC-05 OMB-01 PM-04 USIA-06 SAM-01 OES-03 SP-02 SS-15

STR-04 XMB-02 OIC-02 /135 W
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R 211631Z AUG 75

FM AMEMBASSY BERN

TO SECSTATE WASHDC 1224

OECD PARIS

INFO AMEMBASSY ANKARA

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

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AMEMBASSY OSLO

AMEMBASSY OTTAWA

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AMEMBASSY CARACAS

AMEMBASSY DOHA
AMFBASSY JAKARTA 035
AMEMBASSY KUWAIT
AMEMBASSY LAGOS
AMEMBASSY LIBREVILLE
AMEMBASSY QUITO
AMEMBASSY TEHRAN

AMEMBASSY TRIPOLI

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DEPT PASS TREASURY FOR PARSKY

EO 11652: N/A
TAGS: EFIN ENRG OECD SZ
SUBJ: DRAFT POSITION PAPER ON INDEXATION OF OIL PRICES - SWISS
REACTION

REF: STATE 175861; BERN 3211

1. SWISS (LEVI, DEPT OF PUBLIC ECONOMY) HAVE HANDED US
A FIRST INFORMAL RESPONSE TO THE DRAFT POSITION PAPER ON

INDEXATION OF OIL PRICES. TEXT IS AS FOLLOWS:
QUOTE. FIRST OF ALL, WE WISH TO EXPRESS OUR APPRECIATION
TO ASSISTANT SECRETARY PARSKY FOR HIS MOST USEFUL CONTRIBUTION
TO THE DEFINITION OF AN IEA-NEGOTIATION PLATFORM. IN THE
FOLLOWING YOU WILL FIND OUR FIRST PROVISIONAL REACTION TO
THE QUESTION RAISED IN THAT PAPER:

THE CONCEPT OF TAKING A JOINT ATTITUDE OF PRINCIPLE IN
THIS MATTER AND TO REFUSE THE INDEXATION OF OIL PRICES - AS
WELL AS THAT OF FINANCIAL ASSETS - MEETS WITH OUR FULL APPROVAL.
WE ASK OURSELVES, HOWEVER, WHETHER MACRO-ECONOMIC ARGUMENTS
HAVE A CHANCE TO PREVAIL IN THE FACE OF CLAIMS SUCH AS PRESENTED
BY THE OIL PRODUCING COUNTRIES (AND MOST PROBABLY ALSO OF
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OTHER PRIMARY PRODUCT PRODUCERS OF THE DEVELOPING WORLD).
OUR DOUBTS ARE MAINLY BASED ON THE FOLLOWING CONSIDERATIONS:
A) IN THE INDUSTRIAL COUNTRIES IMPORTANT ECONOMIC DATA ARE
INDEX-BOUND. THE INDEXATION OF WAGES AND SALAREIS, FOR INSTANCE,
HAS INCREASED THE OIL-INDUCED INFLATION AND HAS CONTRIBUTED
TO THE PRICE RISE OF GOODS IMPORTED BY OIL-PRODUCING
COUNTRIES. THIS CAUSALITY CERTAINLY DID NOT ESCAPE THE NOTICE
OF THE ECONOMIC EXPERTS OF THE OIL PRODUCING COUNTRIES.

B) ON THE BASIS OF THEIR STRONG MARKET POSITION WHICH IS EXPECTED TO PREVAIL OVER THE NEXT YEARS, THE OIL PRODUCERS SHOULD BE IN A POSITION TO ADAPT THEIR PRICES, EVEN WITHOUT INDEXATION, TO PURCHASING POWER DEVELOPMENTS AND EVEN TO ACHIEVE FURTHER PRICE RISES (OVER-INDEXATION*). (IN THIS RESPECT IT IS IMPORTANT TO CONVINCE THE OIL PRODUCERS OF THE FACT THAT AN INCONSIDERATE EXPLOITATION OF THEIR MONOPOLY MIGHT, IN THE LONG RUN, DAMAGE THEIR OWN INTERESTS. ARGUMENTS AGAINST INDEXATION COULD ALSO BE LISTED IN A CATALOG TO BE DRAWN UP TO THIS EFFECT.)

C) A TREATMENT OF CRUDE OIL DIFFERING FROM THAT OF OTHER COMMODITIES IS DIFFICULT TO JUSTIFY. WE HAVE, THEREFORE, TO ELABORATE A HOMOGENEOUS DOCTRINE TO BE APPLIED IN THE CASE OF CRUDE OIL AS WELL AS IN THAT OF OTHER PRIMARY PRODUCTS, AT LEAST OF THOSE BEING, LIKE CRUDE OIL, NON-RENEWABLE.

D) THE CONCERN OF THE OIL PRODUCING COUNTRIES TO PRESERVE THE PURCHASING POWER OF THEIR EXPORT INCOME STEMS FROM THEIR BEING CONSCIOUS OF THE FACT THAT THEIR OIL RESOURCES ARE NOT INEXHAUSTIBLE AND THAT THEY HAVE TO USE THE PRESENT RICHES TO PREPARE FOR THE TIME WHEN OIL REVENUES START FALLING OFF. (HERE AGAIN THE ATTENTION OF OIL PRODUCING COUNTRIES HAS TO BE DRAWN TO THE FACT THAT A FULL EXPLOITATION OF THEIR MONOPOLY POSITION IS NOT A SUITABLE EXPEDIENT FOR AN OPTIMAL LONG-TERM PREPARATION OF THEIR ECONOMIC FUTURE.)

FOR THE ABOVE MENTIONED REASONS IT WOULD NOT SEEM EASY TO DEBATE INDEXATION ON THE MACRO-ECONOMIC LEVEL WITHOUT GIVING CAUSE TO DOUBTS AS TO THE CREDIBILITY OF THE INDUSTRIAL COUNTRIES. THIS IS WHY - WITHOUT WISHING TO GIVE A PREMATURE JUDGEMENT ON THE WAYS IN WHICH DISCUSSIONS SHOULD BE CONDUCTED WITHIN THE FRAMEWORK LIMITED OFFICIAL USE

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OF THE DIALOGUE AND WITHOUT MINIMIZING THE RESPONSIBILITY OF THE OIL PRODUCING COUNTRIES IN A WORLD-WISE CONTEXT - WE ARE OF THE OPINION THAT THE ELABORATION OF ARGUMENTS WITH REGARD TO THE TECHNICAL DIFFICULTIES OF AN INDEXATION MIGHT ALSO CONSTITUTE A USEFUL CONTRIBUTION TO THE PREPARATION OF A JOINT POSITION TO BE TAKEN IN THE DIALOGUE.

IN OUR VIEW, THESE QUESTIONS OUGHT TO BE THOROUGHLY DISCUSSED AT THE FORTHCOMING MEETING OF THE GROUP AND THE ARGUMENTS WHICH WE MIGHT GAIN OUT OF THE TECHNICAL DIFFICULTIES RUNNING COUNTER AN INDEXATION WOULD HAVE TO BE EXAMINED. END QUOTE.

3. EMBASSY COMMENT: SWISS OFFICIALS INVOLVED IN THIS ISSUE HAVE ON SEVERAL OCCASIONS MENTIONED THEIR CONCERN

THAT THE OECD POSITION BE PERSUASIVE TO THE PRODUCERS
AND THE PUBLIC. THIS FIRST REACTION TO THE DRAFT REFLECTS
THAT CONCERN.
ODELL

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